

## STATE OF SOUTH CAROLINA

Annual Review of Purchased Gas Adjustment and  
Gas Purchasing Policies of South Carolina Electric &  
Gas CompanyBEFORE THE  
PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA

## COVER SHEET

## DOCKET

NUMBER: 2008 - 5 - G

(Please type or print)

Submitted by: K. Chad BurgessSC Bar Number: 69456Address: SCANA Corp.  
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**DOCKETING INFORMATION** (Check all that apply)
☐ Emergency Relief demanded in petition      ☐ Request for item to be placed on Commission's Agenda expeditiously
☐ Other: \_\_\_\_\_**INDUSTRY (Check one)****NATURE OF ACTION (Check all that apply)**

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| <input type="checkbox"/> Electric                    | <input type="checkbox"/> Affidavit                 | <input type="checkbox"/> Letter                            | <input type="checkbox"/> Request                   |
| <input type="checkbox"/> Electric/Gas                | <input type="checkbox"/> Agreement                 | <input type="checkbox"/> Memorandum                        | <input type="checkbox"/> Request for Certification |
| <input type="checkbox"/> Electric/Telecommunications | <input type="checkbox"/> Answer                    | <input type="checkbox"/> Motion                            | <input type="checkbox"/> Request for Investigation |
| <input type="checkbox"/> Electric/Water              | <input type="checkbox"/> Appellate Review          | <input type="checkbox"/> Objection                         | <input type="checkbox"/> Resale Agreement          |
| <input type="checkbox"/> Electric/Water/Telecom.     | <input type="checkbox"/> Application               | <input type="checkbox"/> Petition                          | <input type="checkbox"/> Resale Amendment          |
| <input type="checkbox"/> Electric/Water/Sewer        | <input type="checkbox"/> Brief                     | <input type="checkbox"/> Petition for Reconsideration      | <input type="checkbox"/> Reservation Letter        |
| <input checked="" type="checkbox"/> Gas              | <input type="checkbox"/> Certificate               | <input type="checkbox"/> Petition for Rulemaking           | <input type="checkbox"/> Response                  |
| <input type="checkbox"/> Railroad                    | <input type="checkbox"/> Comments                  | <input type="checkbox"/> Petition for Rule to Show Cause   | <input type="checkbox"/> Response to Discovery     |
| <input type="checkbox"/> Sewer                       | <input type="checkbox"/> Complaint                 | <input type="checkbox"/> Petition to Intervene             | <input type="checkbox"/> Return to Petition        |
| <input type="checkbox"/> Telecommunications          | <input type="checkbox"/> Consent Order             | <input type="checkbox"/> Petition to Intervene Out of Time | <input type="checkbox"/> Stipulation               |
| <input type="checkbox"/> Transportation              | <input type="checkbox"/> Discovery                 | <input checked="" type="checkbox"/> Prefiled Testimony     | <input type="checkbox"/> Subpoena                  |
| <input type="checkbox"/> Water                       | <input type="checkbox"/> Exhibit                   | <input type="checkbox"/> Promotion                         | <input type="checkbox"/> Tariff                    |
| <input type="checkbox"/> Water/Sewer                 | <input type="checkbox"/> Expedited Consideration   | <input type="checkbox"/> Proposed Order                    | <input type="checkbox"/> Other: <i>OK Duke</i>     |
| <input type="checkbox"/> Administrative Matter       | <input type="checkbox"/> Interconnection Agreement | <input type="checkbox"/> Protest                           | <i>OK O. Decker</i>                                |
| <input type="checkbox"/> Other:                      | <input type="checkbox"/> Interconnection Amendment | <input type="checkbox"/> Publisher's Affidavit             |  |
|  | <input type="checkbox"/> Late-Filed Exhibit        | <input type="checkbox"/> Report                            |  |

RETURN DATE: *OK Duke*  
SERVICE: *OK O. Decker*



K. Chad Burgess  
Senior Counsel

chad.burgess@scana.com

May 13, 2008

**VIA HAND DELIVERY**

The Honorable Charles Terreni  
Chief Clerk/Administrator  
**South Carolina Public Service Commission**  
101 Executive Center Drive (29210)  
Post Office Drawer 11649  
Columbia, South Carolina 29211

RECEIVED  
2008 MAY 13 AM 11:59  
SC PUBLIC SERVICE  
COMMISSION

RE: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of  
South Carolina Electric & Gas Company  
Docket No. 2008-5-G

Dear Mr. Terreni:

Enclosed for filing, on behalf of South Carolina Electric & Gas Company is the direct testimony of Martin K. Phalen, James E. Swan IV, Rose Jackson, and Harry L. Scruggs. Please accept the original and twenty-five (25) copies of each for filing. Additionally, please acknowledge your receipt of these documents by file-stamping the extra copies that are enclosed and returning them to us via our courier.

By copy of this letter, we are serving counsel for the South Carolina Office of Regulatory Staff with a copy of the enclosed direct testimony and attach a certificate of service to that effect.

If you have any questions regarding this matter, please advise.

Very truly yours,

  
K. Chad Burgess

KCB/kms  
Enclosures

cc: Shannon Bowyer Hudson, Esquire  
Shealy Boland Reibold, Esquire  
(all hand delivery with enclosures)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2008-5-G**

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**COMMISSION**

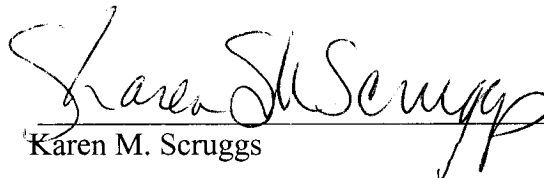
IN RE:

Annual Review of Purchased Gas )  
Adjustment and Gas Purchasing Policies )  
of South Carolina Electric & Gas Company )  
\_\_\_\_\_ )

**CERTIFICATE  
OF SERVICE**

This is to certify that I have caused to be served this day ten (10) copies of South Carolina Electric & Gas Company's **Testimony of Martin K. Phalen, James E. Swan IV, Rose Jackson and Harry L. Scruggs** via hand delivery to the persons named below at the address set forth:

Shannon Bowyer Hudson, Esquire  
Shealy Boland Reibold, Esquire  
**Office of Regulatory Staff**  
1441 Main Street, Suite 300  
Columbia, SC 29201

  
\_\_\_\_\_  
Karen M. Scruggs

Columbia, South Carolina  
This 13th day of May 2008

**DIRECT TESTIMONY OF  
JAMES E. SWAN, IV  
ON BEHALF OF  
SOUTH CAROLINA ELECTRIC & GAS COMPANY  
DOCKET NO. 2008-5-G**

RECEIVED  
2008 MAY 13 PM 12:00  
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COMMISSION

**Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.**

A. My name is James E. Swan, IV. My business address is 1426 Main Street, Columbia, South Carolina.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by SCANA Services, Inc. and serve as the Controller of SCANA Corporation and its subsidiaries ("SCANA"), including South Carolina Electric & Gas Company (the "Company" or "SCE&G").

**Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.**

A. I received a Bachelor of Science degree in Accounting from Clemson University, cum laude, in May of 1982. In June, 1982, I joined the public accounting firm of Touche Ross & Co. as an auditor, and I left the firm in June 1986 to become the Controller of Nautilus Sports/Medical Industries, Inc. In December of 1987, I returned to Touche Ross as an audit manager. While at Touche Ross and later at Deloitte & Touche, I was responsible for the performance of audit and related services for clients in the utilities, manufacturing and distribution, healthcare, telecommunications and technology industries. While at Deloitte & Touche, I served in a risk management role in the firm's National Office, and I also devoted a significant amount of time to

1 resolution of technical accounting issues and to serving Securities and Exchange  
2 Commission (SEC) registrants. I left the firm as an audit partner in August 2000  
3 to join SCANA as an assistant controller. I became SCANA's and SCE&G's  
4 Controller in the Spring of 2002. I am a certified public accountant in South  
5 Carolina and North Carolina, and I am a member of the American Institute of  
6 Certified Public Accountants.

7 **Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN REGULATORY**  
8 **PROCEEDINGS?**

9 A. I have submitted testimony to this Commission in three prior regulatory  
10 proceedings on behalf of South Carolina Electric & Gas Company and have  
11 given testimony from the stand in two of those proceedings.

12 **Q. PLEASE DESCRIBE THE SCOPE OF THE TESTIMONY YOU ARE**  
13 **PRESENTING.**

14 A. My testimony concerns the accounting treatment for prepayments and  
15 collections related to municipal fees and the crediting of accumulated balances in  
16 certain prepayment accounts to customers through the cost of gas calculations.

17 **Q. HAS THE COMMISSION PREVIOUSLY CONSIDERED THESE**  
18 **MATTERS?**

19 A. Yes. On December 20, 2007, SCE&G filed a letter with the Commission  
20 requesting an accounting order approving a revised accounting treatment for  
21 these prepayments and collections and approving the crediting of balances related  
22 to these prepayments to electric fuel costs and gas costs. On January 25, 2008,

1 the Commission issued Order No. 2008-49 granting SCE&G's request. The  
2 Commission did so without prejudice to any party in future proceedings and  
3 specifically indicated that it would consider testimony about these matters in the  
4 annual review of SCE&G's recovery rates for fuel costs, Docket No. 2008-2-E.

5 SCE&G gave notice to its customers that these issues would be  
6 considered in that docket and presented testimony concerning municipal fees at  
7 the hearing on March 27, 2008. In Order No. 2008-323, issued on April 30,  
8 2008, the Commission affirmed the accounting treatment it had initially  
9 authorized in Order No. 2008-49. The Commission also affirmed SCE&G's  
10 approach for crediting the outstanding balances related to electric service to  
11 environmentally-related electric fuel costs.

12 In Order No. 2008-323, however, the Commission indicated that it would  
13 consider matters related to gas service in this proceeding.

14 My present testimony is filed in response to the Commission's directives  
15 related to gas service contained in Order No. 2008-323. In the interest of  
16 thoroughness and clarity, my present testimony contains much of the background  
17 material related to municipal fee prepayments that I presented in my testimony in  
18 the fuel clause proceeding, Docket No. 2008-2-E. The discussion that follows,  
19 however, otherwise focuses on the gas related-balances and SCE&G's approach  
20 to crediting them to cost of gas calculations.

1 **Q. PLEASE EXPLAIN THE HISTORY AND ORIGIN OF THE MUNICIPAL**  
2 **FEES AT ISSUE.**

3 A. Under Article VIII, Section 15 of the Constitution of South Carolina, and  
4 Section 5-7-30 of the Code of Laws of South Carolina, 1976, municipalities have  
5 the right to grant or withhold consent for utility companies to use public streets,  
6 alleys and other public spaces to serve customers within their boundaries.  
7 Historically, as consideration for the right to use these spaces, municipalities have  
8 required utility companies to pay them a percentage of utility revenues generated  
9 within the municipal limits. As of the end of 2007, SCE&G was a party to fee  
10 agreements requiring such payments with 150 municipalities, 95 of which relate  
11 to gas service. Within these 95 municipalities, SCE&G serves approximately  
12 186,000 gas customers.

13 **Q. HOW ARE FEES CALCULATED UNDER THESE AGREEMENTS?**

14 A. The fees charged to SCE&G under these agreements typically range from  
15 3% to 5% of the amounts billed to residential and commercial customers within  
16 each municipality. Most, but not all, municipalities exclude revenue from  
17 industrial service from these fee assessments. This exclusion avoids creating an  
18 incentive for manufacturing plants within the municipal limits to close or move  
19 away.

20 While there is reasonable uniformity concerning many aspects of these  
21 agreements, the percentage of the fee charged varies from municipality to  
22 municipality. To further complicate matters, some of the 95 municipalities where

1 SCE&G serves natural gas have changed the amount of the fee they charge in  
2 recent years.

3 **Q. HOW ARE FEES PAID UNDER THESE AGREEMENTS?**

4 A. The agreements require SCE&G to pay the fees in advance each year,  
5 with the payment itself being computed based on the prior year's billings. In  
6 other words, a payment made in 2007 is calculated based on 2006 billings and  
7 secures the right for the Company to use municipal spaces for providing utility  
8 service during 2008.

9 **Q. HOW HAS THE COMPANY ACCOUNTED FOR THE PAYMENT AND**  
10 **RECOVERY OF THESE FEES?**

11 A. Before 1987, municipal fee payments were accounted for as general utility  
12 expenses and were treated like any other tax or other cost of providing utility  
13 service. Specifically, as required by 19 C.F.R. Part 101-Uniform System of  
14 Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions  
15 of the Federal Power Act (the "Uniform System of Accounts"), prepayments of  
16 municipal fees were booked in Account 165, Prepayments. Each prepayment  
17 was then amortized into general utility expenses the following year as service  
18 was rendered to customers using the rights secured by the prepayment.

19 **Q. HOW DID THIS CHANGE IN 1987?**

20 A. Beginning as early as 1980, the Commission began requiring utilities to  
21 treat municipal fee payments as a separate expense, to remove that expense from  
22 base rate calculations, and to recover it from customers as a special surcharge



1 applicable only in the municipalities where a fee was imposed. In a 1987 gas rate  
2 proceeding, Docket No. 87-227-G, the Commission ordered SCE&G to use this  
3 approach for its gas customers. As the Commission stated in Order No. 87-1294:

4 The Commission notes that Order No. 80-80 in Docket No. 80-9-G  
5 directed Piedmont Natural gas to treat such fees as a separate expense for  
6 ratemaking purposes and collect the fees only from the customers residing  
7 within the city limits of the cities assessing such a fee. Order No. 84-708  
8 in Docket No. 83-495-G directed Piedmont Natural Gas to recover its  
9 business license tax similarly. The propriety of the Commission's action  
10 was affirmed by the South Carolina Supreme Court in The City of  
11 Spartanburg v. The Public Service Commission of South Carolina and  
12 Southern Bell Telephone and Telegraph Co., 281 S.C. 223, 314 S.E.2d  
13 599 (1984).

14  
15 While Order No. 87-1294 applied to SCE&G's natural gas services, a similar  
16 order, Order No. 87-1381, directed SCE&G to use the same approach for electric  
17 services.

18 **Q. HOW DID THIS ORDER AFFECT SCE&G'S ACCOUNTING FOR**  
19 **MUNICIPAL FEE PAYMENTS AND CHARGES?**

20 A. In response to this order, the Company began directly billing customers  
21 residing within municipal limits for these fees at the rates established in the  
22 applicable agreements. SCE&G continued to book the prepayments each year to  
23 Account 165 as required by the Uniform System of Accounts. However, rather  
24 than amortizing these prepayments into general utility expenses as it had done  
25 before 1987, the Company instead credited the subsequent-years' collections  
26 from customers against the prepayment in Account 165.

1

2 **Q. WHAT WAS THE RESULT OF THIS ACCOUNTING APPROACH?**

3 A. This accounting approach was fully consistent with the Commission's  
4 orders of 1987, but this approach did allow balances to accumulate in Account  
5 165 without any specific means to flow those balances through to customers.

6 **Q. PLEASE EXPLAIN.**

7 A. As noted above, prepayments are calculated based on the prior year's  
8 billings. Collections to recover these fees depend on billings during the  
9 collection period two years later. Collections may be more or less than the  
10 associated prepayments depending on whether billings to the municipal  
11 customers increased or decreased between the calculation year and the collection  
12 year. When there is a difference between prepayments and later collections, that  
13 difference is seen as a balance in Account 165.

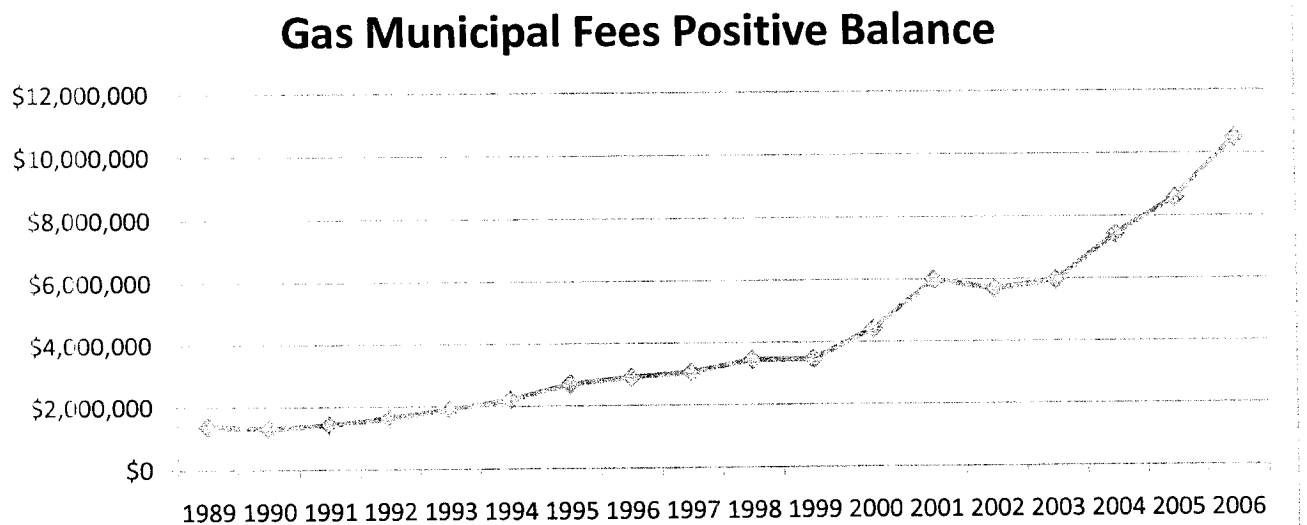
14 **Q. WHAT FACTORS INFLUENCED THESE YEARLY OVER-**  
15 **RECOVERIES AND UNDER-RECOVERIES?**

16 A. Factors that influenced the relationship between prepayments and  
17 collections year to year include increases or reductions in natural gas costs,  
18 weather (which can cause dramatic fluctuation in billings year to year), growth or  
19 decline in population or economic activity within the municipality, annexation of  
20 new areas and customers into the municipality, and base rate increases or  
21 reductions. In fact, over the past decade there has been significant variability in  
22 the relationship between payments and collections year to year. When the

relationship between payments and collections is analyzed on a municipality by municipality basis, the variation is even greater.

**Q. WHAT HAS BEEN THE OVERALL TREND IN THE BALANCE OF THE PREPAYMENT ACCOUNT?**

A. In recent years, increases in gas commodity costs, as well as growth in energy demand and base rate adjustments, have resulted in a cumulative balance of collections compared to payments that is significantly positive. As of January 1, 2007, the cumulative positive balance of fee prepayments vs. collections related to gas service was approximately \$10.5 million. The Company has compiled the history of the cumulative gas balances at year end since 1989 by tracking the activity in the account retrospectively. The results are as follows:



This chart depicts how the balances became relatively larger only in the more recent years as commodity gas costs began their trend upward.

1 **Q. HAVE CUSTOMERS RECEIVED THE BENEFIT OF THE POSITIVE**  
2 **CUMULATIVE BALANCES RELATED TO THESE PREPAYMENTS?**

3 A. Yes. Customers have received the full benefit of any positive balances in  
4 these prepayment accounts. As required by the Uniform System of Accounts, the  
5 balance in Account 165, after netting all entries in the account, is included in rate  
6 base. As a result, any positive balance related to municipal fee collections in  
7 excess of prepayments reduces regulated rate base and reduces the Company's  
8 revenue requirement by the weighted average cost of capital applied to the  
9 amount of the rate base reduction. Reductions in revenue requirements have been  
10 reflected in each quarterly rate of return report filed by SCE&G since 1989 when  
11 a positive balance in the prepayment account first arose. The reductions were also  
12 reflected in each of the rate adjustments granted by the Commission since 1989.

13 **Q. PLEASE PROVIDE A SPECIFIC EXAMPLE OF HOW THESE**  
14 **BALANCES HAVE PUT DOWNWARD PRESSURE ON RATES.**

15 A. The balances in these prepayment accounts have reduced SCE&G's  
16 revenue requirements, and the resulting rates, in both the 2006 and 2007 rate  
17 adjustments authorized by the Commission under the terms of the Natural Gas  
18 Rate Stabilization Act. Those rate adjustments were authorized in Docket No.  
19 2006-157-G in Order No. 2006-553, dated September 27, 2006; and Order No.  
20 2007-744 dated October 12, 2007. Specifically, the review period in Order No.  
21 2007-744, which is the most recent proceeding, was the 12 months ending March  
22 31, 2007. The balance in the prepayment account related to municipal fees was

1 included in rate base , effectively lowering net gas distribution rate base by \$10.9  
2 million and resulting in a reduction in the Company's revenue requirement of  
3 \$1.3 million in that proceeding. In other words, as a result of the positive  
4 municipal fee balances on the books in that proceeding, retail gas rates were set  
5 to collect \$1.3 million less annually than would otherwise have been the case.

6 **Q. WHAT ACCOUNTING TREATMENT DID THE COMMISSION**  
7 **APPROVE IN ORDER NO. 2008-323?**

8 A. In Docket No. 2007-459-E, SCE&G requested the Commission to allow  
9 SCE&G, beginning with its calendar year 2007 financial statements, to record  
10 current-year payments of municipal fees as a prepaid expense on its balance sheet  
11 and record current-year collections as other electric or gas revenue, as  
12 appropriate, net of the amortization of the prior year prepayment. This  
13 accounting treatment ensures that, going forward, balances related to  
14 prepayments and collections will not accumulate, and that over-collections or  
15 under-collections will be reflected in utility income in future rate of return reports  
16 and will be reflected in gas rates annually through the adjustments made under  
17 the Natural Gas Rate Stabilization Act. The Commission authorized this  
18 accounting treatment in Order No. 2008-49 and confirmed this authorization in  
19 Order No. 2008-323 (p. 10).

20 **Q. PLEASE EXPLAIN THE CREDITS TO GAS COSTS.**

21 A. Under the cost of gas recovery mechanism approved by the Commission  
22 in Order No. 2005-619, the Company computes an individual demand cost of gas

1 component for the residential, commercial and industrial customer classes  
2 separately. Under the authorization granted in Order No. 2008-49, the Company  
3 made a one-time credit of \$10.5 million to the demand cost of gas component for  
4 residential and commercial customers. Under the gas cost recovery mechanism  
5 approved by the Commission in Order No. 2006-629, gas cost factors are  
6 computed on a rolling twelve-month average and adjusted as required month-to-  
7 month. As such, the \$10.5 million credit was reflected in the rolling twelve-  
8 month calculations of the demand cost of gas component for SCE&G's  
9 residential and commercial customers during this annual review period. The  
10 resulting credits were approximately \$7.2 million for residential customers and  
11 \$3.3 million for commercial customers.

12 **Q. WHY DID THE COMPANY PROPOSE TO APPLY THE GAS RELATED**  
13 **BALANCE TO THE DEMAND COST OF GAS COMPONENT FOR**  
14 **RESIDENTIAL AND COMMERCIAL CUSTOMERS ONLY?**

15 A. As mentioned above, with few exceptions, municipal fee agreements  
16 exempt industrial customers from these fees. Allocating the credits to the  
17 demand cost of gas component for the residential and commercial customer  
18 classes makes it possible to allocate credits specifically to residential and  
19 commercial gas customers, and not to the industrial customers.

1 **Q. DID THE COMPANY CONSIDER OTHER ALTERNATIVES FOR**  
2 **FLOWING THESE FUNDS BACK TO CUSTOMERS?**

3 A. Yes. The Company considered several options for targeting the credits  
4 more specifically to customers inside municipalities. However, the Company  
5 determined for a number of reasons that the mechanism conditionally approved  
6 in Order No. 2008-49 is the best and most fair and reasonable way to handle  
7 these credits. Several of the key considerations are as follows:

- 8 • The account balances in question have accumulated over a long period of  
9 time. During that time, customers have moved in and out of cities and towns,  
10 municipal boundaries have been expanded by annexation, and in some cases  
11 municipalities have been added or removed from the list of those within  
12 which SCE&G collects fees.
- 13 • The customers in the 95 municipalities in which SCE&G currently serves  
14 have contributed greatly differing amounts to the cumulative over-collection  
15 of prepayments. As discussed above, the amount of contribution depends on  
16 a number of factors, including the rate of growth or decline in construction  
17 and economic activity within the municipality, and the rate of expansion by  
18 annexation that individual municipalities have experienced during that time.  
19 There is no consistency in contributions when viewed on a municipality by  
20 municipality basis.
- 21 • In addition, a number of municipalities have increased their franchise fee  
22 percentages from 3% to 5% at different times during the period. These

1 changes have affected the level of contributions to the accumulation of the  
2 balances credited.

- 3 • Due to these sorts of complexities, any municipality-only or municipality-by-  
4 municipality credit would have to be calculated and credited by hand. The  
5 cost and administrative burden of doing so would be significant.
- 6 • Municipality-specific credits would also mean that credits would be greatly  
7 different from municipality to municipality. Similarly situated customers,  
8 paying the same franchise fee percentage but living in towns with different  
9 growth or annexation rates could receive very different credits. Those  
10 differences could cause significant customer confusion and would be likely to  
11 place a significant burden on SCE&G's call center personnel and others who  
12 would be asked to explain the differences.

13 Considerations such as these have convinced the Company that the most fair  
14 and logical approach is to flow these balances back to customers on a uniform  
15 basis as credits to existing cost of gas calculations. Under this approach, all  
16 customers who pay the applicable cost of gas charges will get equivalent benefits  
17 from the credits, the municipal fee percentages as itemized on the customers'  
18 bills will continue to match the municipally-established fee percentages, and the  
19 administrative burdens and possibility of confusion will be minimized.



1 **Q. WHAT IS YOUR CONCLUSION AS TO THE APPROPRIATENESS OF**  
2 **THE PROPOSED CREDITING MECHANISM?**

3 A. In my opinion, adopting the proposed crediting mechanisms for the  
4 outstanding balances as of December 31, 2006, will ensure that the value of these  
5 balances is credited to customers in a uniform, reasonable and equitable way and  
6 one that targets the benefit solely to the customer classes that have contributed to  
7 creation of the balances.

8 **Q. WHAT HAS THE COMPANY DONE TO ENSURE THAT OTHER**  
9 **PREPAYMENT AND DEFERRED CREDIT OR DEBIT ACCOUNTS**  
10 **ARE NOT ACCUMULATING SIMILAR BALANCES?**

11 A. As stated in my testimony in Docket No. 2008-2-E, my staff and I have  
12 reviewed the other prepayments being accounted for in our series of accounts  
13 within Account 165 of the Uniform System of Accounts to ensure that each one  
14 is appropriate and that each such prepayment is supported by an amortization and  
15 reconciliation mechanism that will properly reduce the balance held in the  
16 account as the benefit of the prepayment is received. By way of background,  
17 most of the items held in the Account 165 series are ordinary prepayments for  
18 things such as taxes, insurance, multi-year service agreements, or multi-year  
19 maintenance agreements. In all cases, the value of the prepayment is amortized  
20 into expenses as the benefit is received or on a schedule that reflects the terms of  
21 the contract under which the prepayment was made. As a result, balances are  
22 held in the account only as long as necessary to match the payment with the

1 associated services or benefits. In fact, these mechanisms work in the same way  
2 as does the amortization mechanism that the Commission initially approved for  
3 municipal fee balances in Order 2008-49. Under these mechanisms, the balance  
4 related to a given prepayment is reduced to zero as the services or benefits  
5 associated with that prepayment are received.

6 Beyond this review of amounts in the Account 165 series, my staff and I  
7 also made a review of the Company's other principal deferred accounts. These  
8 accounts typically exist by reason of Commission orders or other regulatory  
9 accounting guidance, and their balances are amortized into rates over time or are  
10 held to be expensed at a later date. Our review showed that these accounts are  
11 being administered properly and the balances they reflect are reasonable and  
12 appropriate. Based on the review my staff and I conducted, and based on my  
13 knowledge of SCE&G's accounts as its Controller, I am not aware of any other  
14 deferral accounts that have balances that are greater than what would be  
15 reasonably expected or where special action is necessary to flow benefits back to  
16 customers. The Company will continue to monitor these accounts and will come  
17 to the Commission if it becomes necessary or appropriate to take any action  
18 related to them in the future.

19 **Q. MR. SWAN, DOES THIS CONCLUDE YOUR TESTIMONY?**

20 **A.** Yes. It does.